

May 10, 2005

Mr. David Ikari, Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Mr. Ikari:

This post hearing brief is submitted on behalf of Land O' Lakes for the hearing held in Sacramento on May 3, 2005 on the subject of the Class 1 prices in California. This brief amplifies the testimony presented in May 3, 2005 and responding in part to other testimony presented by others. I will submit another post hearing brief for the May 6th hearing.

1. The testimony included data on Cost of Producing Milk: A Comparison by State authored by Ed Jesse and Bruce Jones at the University of Wisconsin. I was asked the question about the time represented in the cost of production data. The data on costs of production were for the period January 1 through June 30, 2003 and the article was published in November 2003.
2. Some of the testimony offered by Western United Dairymen was outside the call of the hearing. We testified to that fact at the Ontario hearing on May 6, 2005. I will not repeat that testimony here. However, a good share of Western United Dairymen's testimony starting on page 6 through page 10 of their formal testimony on May 3rd, 2005 is outside the call of the hearing and should simply be disregarded.
3. Western United Dairymen on page 8 stated, "It is interesting to note that the Federal Class 1 price structure clearly supports our claim. If California were a part of a Federal Order, a \$1.60 Class 1 differential in Tulare and \$2.10 differential in Los Angeles would exist. The \$.50 per hundred would serve three functions:" I will not repeat point no. 1 or 2 but simply start quoting point 3. "3. Providing transportation credits on plant-to-plant shipments. A pool plant in Tulare county shipping milk to a pool plant in Los Angeles County would have \$.50 raw product advantage to help cover hauling costs. This \$.50 incentive is far lower than the current \$.87 to \$.98 (transportation credit plus area differential) currently in place"

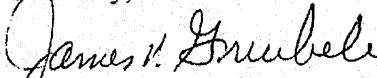
There are about three comments that I will make about this point. #1. This discussion is entirely outside the call of the hearing. #2. The comments are speculative. Until the Federal order is implemented we are not sure what the relative Class 1 prices might be. #3. There are Federal orders that not only provide incentives to move milk from the areas of surplus to deficit markets with the use of relative class 1 prices but more importantly, some orders also

provide a transportation credit. It is pure speculation to assume, as Western United has, that the only incentive to move milk plant to plant from the South Valley to Southern California would be the relative Class 1 price in the South Valley and Southern California if a Federal order were established in California.

This is not the hearing to discuss the merits or problems with the decision of the August 2004 hearing. But, under purely economic conditions, the Class 1 prices in Tulare would be substantially different from Los Angeles or Riverside Counties and the price differences would be significantly larger than the area differential is today. Under those conditions, milk could flow from ranch to plant or from plant to plant and no one would need to ask which of the two methods are less "costly". As stated in the testimony on May 3rd, former Professor Bressler at the University of California discussed how deficit markets are characterized by the existence of fluid milk processing plants and areas of surplus are characterized by manufacturing operations processing butter, powder and cheese and, in part, serve as a reserve supply of milk for the deficit markets when needed for fluid milk purposes. He then stated, "These market prices and the transportation costs, then, establish geographic structures of product prices throughout the region so that the price at any point is represented by the market price less transportation costs" (emphasis added).

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Sincerely,


James W. Gruebele
Consultant for Land O' Lakes

1/ Bressler, R.G., Pricing Raw Product in Complex Milk Markets, Reprinted by the Agricultural Marketing Service from Agricultural Economics Research, Vol. X. No. 4, October 1958. pp. 114-130.